

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Financial Statements and Supplementary Data
December 31, 2006 and 2005

(With Auditors' Report Thereon)

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Statement of Net Assets	4
Statement of Revenue, Expenses and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11
Schedule of Impact Fees	12
Independent Auditors' Legal Compliance Report	13
Schedule of Findings and Questioned Costs	14
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15-16

Independent Auditors' Report

To the Board of Trustees
Wolf Creek Sewer Improvement District
Eden, Utah

We have audited the accompanying statement of net assets of Wolf Creek Sewer Improvement District as of December 31, 2006 and 2005, and the related statement of revenue, expenses and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wolf Creek Sewer Improvement District at December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 7, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of impact fees is for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Crane Christensen & Ambrose

June 7, 2007

WOLF CREEK SEWER IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2005 and 2006

As Board of the Wolf Creek Sewer Improvement District, we offer readers of the Wolf Creek Sewer Improvement District's financial statements this narrative overview for the years ended December 31, 2005 and 2006. As the Board, we encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

Overview of the Financial Statements

The Statement of Net Assets provides information regarding all assets of the District, such as cash, accounts receivable, prepaid items, and capital assets as well as the liabilities of the District, such as accounts payable and long-term debt. The difference between the assets and liabilities is reported as net assets.

The Statement of Revenue, Expenses and Changes in Net Assets shows all revenue received during the year broken down by charges for service, impact fees, property taxes, interest and other miscellaneous revenue. The expenses are summarized by administration, general operations and maintenance, insurance, professional fees, interest and depreciation. This statement also shows the net assets at the beginning of the year and at the end of the year.

The Statement of Cash Flows summarizes the flow of cash from operating activities, investment activities as well as capital and related financing activities and provides a reconciliation of operating income to the net cash provided by the operating activity.

Notes to the Financial Statements provides additional disclosures required by government accounting standards and provide information to assist the reader in understanding the District's financial condition.

Management's Discussion & Analysis is intended to explain the significant changes in financial position and differences in operation between the current and prior year.

Other Information includes an independent auditor's legal compliance report and the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards.

Condensed Financial Information

Statement of Net Assets

Total net assets were \$171,610 at December 31, 2005 and \$705,315 at December 31, 2006. Capital assets, net of depreciation, were \$707,646 at December 31, 2005 and \$958,440 at December 31, 2006. Total Liabilities were \$646,758 at December 31, 2005 and \$896,892 at December 31, 2006.

Condensed Statement of Net Assets

<u>Assets</u>	<u>2005</u>	<u>2006</u>
Current assets	\$ 110,772	643,767
Capital assets	707,646	958,440
Total assets	818,368	1,602,207
<u>Liabilities</u>		
Current Liabilities	92,904	76,087
Long-term	553,854	820,805
Total liabilities	646,758	896,892
<u>Net Assets</u>		
Investment in capital assets – net of related debt	91,060	90,586
Unrestricted	80,550	614,729
Total net assets	\$ 171,610	705,315

Statement of Revenues

There were no revenues in 2004. Total revenues increased by \$348,315 or 92% from 2005 to 2006.

<u>Revenue</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Net Change 2006-2005</u>
Charges for Service	\$ 0	\$ 167,626	\$ 286,287	\$ 118,661
Impact fees	0	207,950	423,010	215,060
Interest	0	840	12,362	11,522
Miscellaneous	0	0	3,072	3,072
Total	\$ 0	\$ 376,416	\$ 724,731	\$ 348,315

Statement of Expenses

Total expenses for 2005 and 2006 were \$204,806 and \$191,026 respectively.

Condensed Statement of Expenses

<u>Expenses</u>	<u>2005</u>	<u>2006</u>
Administration	\$ 14,997	\$ 15,000
General operations and maintenance	117,858	87,844
Depreciation	17,461	23,447
Insurance	5,117	2,830
Professional fees	18,005	36,034
Interest	31,368	25,871
Total Expenses	\$ 204,806	\$ 191,026

Statement of Changes in Net Assets

Condensed Statement of Changes in Net Assets

	<u>2005</u>	<u>2006</u>
Revenues	\$ 376,416	\$ 724,731
Expenses	204,806	191,026
Change in net assets	171,610	533,705
Net assets – beginning of year	0	171,610
Net assets – end of year	\$ 171,610	\$ 705,315

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, please call the District at 801-745-3737, 3923 N. Wolf Creek Drive, Eden, Utah, 84310.

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Statement of Net Assets

December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash (note 2)	\$ 599,068	86,704
Accounts receivable (note 3)	<u>44,699</u>	<u>24,018</u>
Total current assets	643,767	110,722
Capital assets less accumulated depreciation of \$40,908 in 2006 and \$17,461 in 2005 (notes 1 and 4)	<u>958,440</u>	<u>707,646</u>
Total assets	<u>1,602,207</u>	<u>818,368</u>
<u>Liabilities</u>		
Current liabilities:		
Long-term liabilities - current portion (note 5)	413,049	62,732
Accounts payable	26,038	172
Deferred revenue	<u>3,000</u>	<u>30,000</u>
Total current liabilities	442,087	92,904
Long-term liabilities less current portion (note 5)	<u>454,805</u>	<u>553,854</u>
Total liabilities	<u>896,892</u>	<u>646,758</u>
<u>Net Assets</u>		
Investment in capital assets - net of related debt	90,586	91,060
Unrestricted	<u>614,729</u>	<u>80,550</u>
Total net assets	<u>\$ 705,315</u>	<u>171,610</u>

See independent auditors' report and notes to financial statements.

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Statement of Revenue, Expenses and Changes in Net Assets

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Income from operations:		
Charges for services	\$ 286,287	167,626
Impact fees	423,010	207,950
Miscellaneous	<u>3,072</u>	<u>-</u>
Total income from operations	<u>712,369</u>	<u>375,576</u>
Expenses:		
Administration	15,000	14,997
Operations	44,686	42,632
Supplies and materials	2,351	20,512
Depreciation	23,447	17,461
Utilities	5,249	4,084
Insurance	2,830	5,117
Professional fees	36,034	18,005
Other general	9,549	2,804
Repairs and maintenance	<u>26,009</u>	<u>47,826</u>
Total expenses	<u>165,155</u>	<u>173,438</u>
Net income from operations	<u>547,214</u>	<u>202,138</u>
Non-operating income and expenses:		
Interest income	12,362	840
Interest expense	<u>(25,871)</u>	<u>(31,368)</u>
Net non-operating income and expenses	<u>(13,509)</u>	<u>(30,528)</u>
Change in net assets	533,705	171,610
Net assets - beginning of year	<u>171,610</u>	<u>-</u>
Net assets - end of year	<u>\$ 705,315</u>	<u>171,610</u>

See independent auditors' report and notes to financial statements.

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Statement of Cash Flows

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$ 664,688	381,558
Payments to suppliers	<u>(115,842)</u>	<u>(155,805)</u>
Net cash provided by operating activities	<u>548,846</u>	<u>225,753</u>
Cash flows from investing activities:		
Interest received	<u>12,362</u>	<u>840</u>
Net cash provided by investing activities	<u>12,362</u>	<u>840</u>
Cash flows from capital and related financing activities:		
Interest paid	(25,871)	(31,368)
Purchase of capital assets	(274,241)	(725,107)
Proceeds from long-term debt	314,000	679,318
Principal paid on long-term debt	<u>(62,732)</u>	<u>(62,732)</u>
Net cash used by capital and related financial activities	<u>(48,844)</u>	<u>(139,889)</u>
Net increase in cash	512,364	86,704
Cash - beginning of year	<u>86,704</u>	<u>-</u>
Cash - end of year	<u>\$ 599,068</u>	<u>86,704</u>
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	\$ 547,214	202,138
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	23,447	17,461
Increase in accounts receivable	(20,681)	(24,018)
Increase (decrease) in deferred revenue	(27,000)	30,000
Increase in accounts payable	<u>25,866</u>	<u>172</u>
Net cash provided by operating activities	<u>\$ 548,846</u>	<u>225,753</u>

See independent auditors' report and notes to financial statements.

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Notes to Financial Statements

December 31, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies

A. Organization

The District was organized to provide sewer services within its designated area.

B. Financial Reporting Model

The District has implemented the financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes to these statements are as follows:

1. Presentation of management's discussion and analysis.
2. The term retained earnings is replaced by net assets.
3. The statement of cash flows is presented on the direct method.

C. Accounting Method

The District uses the accrual method of accounting to record its transactions. All applicable Financial Accounting Standards Board pronouncements issued prior to December 1, 1989 are being applied except for those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

D. Reporting Entity

In evaluating how to define the government for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America (GAAP). The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. A second criterion used in evaluating potential component units is the scope of public services. Application for this criterion involves considering whether the activity benefits the government, and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

E. Fund Accounting

The accounts of the District are organized as one proprietary fund type specifically as an enterprise fund. Proprietary funds account for the flow of economic resources and use the accrual basis for accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business or where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

F. Capital Assets

Depreciation is recorded on capital assets using the straight-line method over their estimated useful lives as follows:

	Years
Structures and improvements	35
Power generation equipment	10
Vehicles	10
Special equipment	10
Collection sewer	50
Collection structures	50
Flow measuring devices	20
Treatment and disposal equipment	20

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Notes to Financial Statements - Continued

December 31, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Deposits and Investments

Deposits and investments for the District are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of District funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirement of the Act and adhering to the rules of the Utah Money Management Council.

The District's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The District's deposits at December 31, 2006 were \$599,068, of which \$100,000 was insured. Deposits at December 31, 2005 were \$86,704, of which \$80,501 was insured.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk of investments.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The District is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized costs basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. Following are the District's investments at December 31, 2006 and 2005:

<u>Investment Type</u>	<u>2006 Fair Value</u>	<u>2005 Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF Investments	\$ <u>123,790</u>	\$ <u>6,203</u>	69 days*	not rated

*Weighted-average maturity

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Notes to Financial Statements - Continued

December 31, 2006 and 2005

(2) Deposits and Investments - Continued

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted in the previous table.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Council and to invest funds in the PTIF. The Council rules do not limit the amount of investments a government may make in any one issuer except for Rule 2 regarding certain endowments and funds with a long-term perspective, and Rule 17 which limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the government's portfolio at the time of purchase.

(3) Accounts Receivable

Accounts receivable consist of user fees.

(4) Changes in Capital Assets

For the year 2006 as follows:

	Balance January 1 2006	Additions	Deletions	Balance December 31 2006
Structures and improvements	\$ 442,592	-	-	442,592
Power generation equipment	-	22,758	-	22,758
Vehicles	-	2,786	-	2,786
Special equipment	-	48,254	-	48,254
Collection sewer	161,736	-	-	161,736
Collection structures	18,111	-	-	18,111
Flow measuring devices	12,901	-	-	12,901
Treatment and disposal equipment	43,234	-	-	43,234
Construction work in progress	46,533	200,443	-	246,976
Total	\$ 725,107	274,241	-	999,348

For the year 2005 as follows:

	Balance January 1 2005	Additions	Deletions	Balance December 31 2005
Structures and improvements	\$ -	442,592	-	442,592
Collection sewer	-	161,736	-	161,736
Collection structures	-	18,111	-	18,111
Flow measuring devices	-	12,901	-	12,901
Treatment and disposal equipment	-	43,234	-	43,234
Construction work in progress	-	46,533	-	46,533
Total	\$ -	725,107	-	725,107

On May 3, 2005, Wolf Creek Sewer Improvement District purchased sewer facilities from Wolf Creek Properties LC and Wolf Creek Water Company Inc. The purchase price was \$627,318 (note 5).

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Notes to Financial Statements - Continued

December 31, 2006 and 2005

(5) Long-Term Liabilities

Long-term liabilities consist of the following:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2006</u>	<u>2005</u>
Wolf Creek Water Company Inc.	5%	2015	\$ 501,854	564,586
State of Utah Division of Water Quality	0%	2007	<u>366,000</u>	<u>52,000</u>
Total			867,854	616,586
Less current portion			<u>413,049</u>	<u>62,732</u>
Total long-term portion			<u>\$ 454,805</u>	<u>553,854</u>

Minimum payments on long-term liabilities are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 413,049
2008	62,732
2009	62,732
2010	62,732
2011	62,732
2012-2015	<u>203,877</u>
	<u>\$ 867,854</u>

Changes in long-term liabilities for 2006 are as follows:

	<u>Balance January 1 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31 2006</u>
Wolf Creek Water	\$ 564,586	-	62,732	501,854
State of Utah	<u>52,000</u>	<u>314,000</u>	-	<u>366,000</u>
Total	<u>\$ 616,586</u>	<u>314,000</u>	<u>62,732</u>	<u>867,854</u>

Changes in long-term liabilities for 2005 are as follows:

	<u>Balance January 1 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31 2005</u>
Wolf Creek Water	\$ -	627,318	62,732	564,586
State of Utah	-	<u>52,000</u>	-	<u>52,000</u>
Total	<u>\$ -</u>	<u>679,318</u>	<u>62,732</u>	<u>616,586</u>

(6) Risk Management

Wolf Creek Sewer Improvement District is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disaster for which the District carries commercial insurance. Deductibles on claims are paid for out of the department experiencing the damage or loss.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At December 31, 2006 and 2005, there were no outstanding claims or judgements against the District. Settlements did not exceed insurance coverage for each of the past two years.

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Notes to Financial Statements - Continued

December 31, 2006 and 2005

(7) Operating Agreement

On January 1, 2005, Wolf Creek Sewer Improvement District entered into an operating agreement with Wolf Creek Properties LC in which the District engages Wolf Creek Properties to provide the following sewer system services: maintenance and repairs, meter reading, managerial services, and accounting expertise. The operating agreement payments per month are \$3,724 in 2006 and \$3,553 in 2005.

(8) Subsequent Event

On March 5, 2006, the Utah Water Quality Board authorized a loan of \$5,500,000 to Wolf Creek Sewer Improvement District for the construction of a waste water treatment facility. The loan will be secured by a sewer revenue bond issued by the District.

On February 5, 2007, the Board of Trustees of Wolf Creek Sewer Improvement District authorized the issuance and sale of not more than \$5,500,000 of taxable sewer revenue bonds. The bonds are to bear a hardship grant assessment in lieu of interest of not more than 3% and a maturity period of not more than 25 years.

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Schedule of Impact Fees

For the Fiscal Year Ended 2005 and 2006

<u>Fiscal Year</u>	<u>Impact Fee</u>	<u>Interest Earned</u>	<u>Project</u>	<u>Amount Expended</u>	<u>Balance</u>
2005	207,950	278	Sewer Treatment Facility	46,533	161,695
2006	423,010	9,308	Sewer Treatment Facility	200,443	231,875
	<u>630,960</u>	<u>9,586</u>		<u>246,976</u>	<u>393,570</u>

Independent Auditors' Legal Compliance Report

To the Board of Trustees
Wolf Creek Sewer Improvement District
Eden, Utah

We have audited the financial statements of Wolf Creek Sewer Improvement District for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 7, 2007. As part of our audit, we have audited Wolf Creek Sewer Improvement District's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Other Compliance Requirements
Special Districts General Compliance
Impact Fees and Other Development Fees

The District received no financial assistance from the State. The management of Wolf Creek Sewer Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion Wolf Creek Sewer Improvement District complied, in all material respects, with the general compliance requirements identified above for the years ended December 31, 2006 and 2005.

Crane Christensen & Ambrose

June 7, 2007

WOLF CREEK SEWER IMPROVEMENT DISTRICT

Schedule of Findings and Questioned Costs

Years Ended December 31, 2006 and 2005

PROGRAM: CASH MANAGEMENT

FINDING: The District did not deposit all funds received within the required three business days.

QUESTIONED COSTS: None

RECOMMENDATION: The District should deposit all funds received with the required three days.

DISTRICT'S REPLY: The District will comply with this recommendation and implement a new procedure to ensure all funds received are deposited within 3 days.

FINDING: The District did not have the required fidelity bond.

QUESTIONED COSTS: None

RECOMMENDATION: The District should secure the required fidelity bond.

DISTRICT'S REPLY: The District will comply with this recommendation and secure the required fidelity bond.

PROGRAM: BUDGETARY COMPLIANCE

FINDING: The District's expenditures exceeded the amount appropriated in the final adopted budget.

QUESTIONED COSTS: None

RECOMMENDATION: The District should manage expenditures or amend the budget so that expenditures do not exceed the budget.

DISTRICT'S REPLY: The District will comply with this recommendation.

PROGRAM: SPECIAL DISTRICT

FINDING: The District did not provide its name, telephone number, and address to the local telephone directory publisher, nor did it provide written certification to the County Treasurer that the required information was provided to the local telephone directory publisher.

QUESTIONED COSTS: None

RECOMMENDATION: The District should provide the local telephone directory publisher with the required information and the County Treasurer with written certification that the required information was provided to the local telephone directory publisher.

DISTRICT'S REPLY: The District will comply with this recommendation.

Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Board of Trustees
Wolf Creek Sewer Improvement District
Eden, Utah

We have audited the financial statements of Wolf Creek Sewer Improvement District (District) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated May 22, 2007.

This report is intended for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Erane Christensen & Ambrose

June 7, 2007